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September 24, 2008

To: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

WASHINGTON, D.C. UPDATE

Congressional Overview

With a target adjournment date of September 26, 2008, Congressional leaders are scrambling to complete work on major pending legislation, including a Continuing Resolution (CR) to fund programs and activities in Federal Fiscal Year (FFY) 2009, which begins on October 1, 2008, a stimulus package, which could include a temporary Federal Medicaid match rate increase; a \$700 billion bailout proposal to assist financially distressed financial institutions; and tax extender legislation. It remains unclear how and when Congress will complete action on these major pieces of legislation given the lack of consensus among Congressional leaders and the Bush Administration.

Wall Street Bailout

The financial crisis and \$700 billion bailout proposal have diverted considerable time and attention from other end of session legislative business. Negotiations are ongoing and fluid on the White House proposal to allow the Department of Treasury to use up to \$700 billion to purchase bad debt from struggling financial firms. Revisions to the proposal are being made by the minute with a consensus forming on a number of issues, such as provisions to restrict executive compensation at firms which participate in the program. Outstanding issues include whether bankruptcy judges should be given the authority to change the terms of mortgages, whether Congress should authorize the

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\$700 billion in installments, and provisions granting at-risk homeowners additional mortgage relief. A House floor vote on a bailout package could come as early as the end of this week. However, many senators and representatives from both parties have voiced their opposition or concerns about the bailout package, and it remains unclear whether any compromise will be able to secure the votes needed for enactment.

Continuing Resolution and Stimulus Package

To date, Congress has not yet passed any of the 12 FFY 2009 appropriations bills even though FFY 2009 begins next week. Today, the House passed, 370 to 58, a Continuing Resolution (CR), which would temporarily fund most Federal programs and activities through March 6, 2009, and provide full-year funding for programs and activities, which otherwise would be funded through the annual Defense, Military Construction/Veterans Affairs (VA), and Homeland Security appropriations bills. The CR also includes disaster assistance funding, \$7.5 billion to fund a \$25 billion loan program for automakers, and \$5.2 billion for the Low Income Energy Assistance Program. It does not include the moratorium on offshore oil drilling which, for many years, has been included in annual appropriations bills.

The outlook for the CR is unclear because the Senate has not yet begun work on its version, and because the House did not pass the typical CR, which temporarily funds programs at current levels. Instead, it includes full-year funding for Defense, Military Construction/VA, and Homeland Security programs, and major increases for some programs, as indicated above. Moreover, President Bush has indicated that he might veto a CR through next March to force a lame duck session in November and to compel Congress to act on the Colombia free trade agreement this year.

House Democratic leaders remain hopeful that the House can pass on a separate stimulus bill this week, which might include increased Medicaid funding, an extension of unemployment insurance benefits, and infrastructure project funding. However, it appears unlikely that the Senate would be able to pass a stimulus package and that the President would agree to sign a new stimulus bill into law.

Tax Extenders Legislation

On September 23, 2008, the Senate passed a nearly \$150 billion package of tax cut extensions which includes a temporary fix to the Alternative Minimum Tax, renewable energy tax breaks, and renewal of the expiring research and development tax credit. The Senate proposal is partially offset by various revenue-raising provisions, which include tax increases for oil and gas producers and refiners. House Democrats have opposed the Senate bill because it does not include fully offsetting spending cuts and revenue increases. Today, the House is slated to vote on its version, which includes fully offsetting revenue increases. The Bush Administration supports the Senate

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version. It is unclear how the major differences between the Senate and House tax extender bills will be reconciled.

We will continue to keep you advised.

WTF:GK
MT:sb

c: All Department Heads
Legislative Strategist